1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

made by Persians in the Holy Cities. Rifles with Russian-made barrels were made in an old-established factory at Sulaymaniya and thence distributed over all Kurdistan. Tanning and leather-work were practised in the suburbs of Baghdad; but the products—shoes, belts, and saddles—were of low quality. The local river-craft, of primeval design, were fashioned crudely from imported wood and Euphrates bitumen, and use was made in lower 'Iraq of the lashed poles of the skin-supported *kelleks* which were drifted downstream from Mosul and Diyarbakr. Beds and baskets were made from the date frond, mats from the marsh reeds. These, with some soap-making and the Jewish industries of 'araq distillation and the fabrication of forged antiquities, complete the meagre list.

The 'Iraqi-Persian transit trade, a main economic factor, has been elsewhere mentioned (p. 13). To it as an 'invisible export' should be added the proceeds of the great Shi'i pilgrimages—life-blood of the Holy Cities—and those of Sunnis to the shrine of 'Abd al-Qadir al-Gaylani; and, with these, the money spent in 'Iraq by travellers and archaeologists, missions, and foreign consuls.

Apart from export and transit operations, the trade of the territory consisted of the import of those needed commodities which the country could not itself supply. The imports, except for some part brought overland from Syria, Najd, or Anatolia, all passed through Baṣra and were distributed from Baghdad, the unquestioned commercial capital. Cotton cloth, handled by Jewish and British firms, formed three-quarters of the whole. Most of this came from Manchester, a little from India, some silken and woollen goods from France and Austria. Coal reached 'Iraq from Wales, coffee from Brazil and the Yaman, gunny-bags and indigo from India, kerosene from the United States, sugar from Egypt, France, and Austria, wood and tea, yarns and spices from India, date-box wood from Austria, tobacco from Persia. Such, with lesser quantities of paper, hardware, zinc sheets, colours, candles, and fezes, were the imports which were distributed to the limits of the rural and urban population by way of merchant's warehouse, vaulted or mat-covered bazaar, village shop and wandering pedlar.

The currency of the three wilayas was that of the copper qirsh (piastre), the silver majidiya, and the gold lira of the time, a stable coinage adequate to all needs. The intrusion of the Indian rupee in Baṣra and of Persian coins in the middle Tigris towns and Kurdistan was of little inconvenience in an age of steady exchange rates, no restrictions, and no paper-money. A multitude of local weights and measures varied capriciously from district to district. Banking was represented by the Imperial Ottoman Bank, and by the shrewd operations of many local *ṣarrafs*.

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

652 Acting Adviser, and thereafter by E. G. Hogg, from the Sudan, in 1931. Hedgcock and the present writer left the Ministry in 1930 and 1931. Provision for Capital Works under a five-year plan was separated from the current budget, and a main part of the oil revenues, which first accrued in 1932, was allotted to this object. An Economic Advisory Board was set up. Chambers of Commerce were founded in Baghdad and Baṣra. A second advisory visit by Hilton Young, the 'Iraqis' financial consultant of 1925, was paid in 1930, and other foreign experts—notably A. Sainsbury, expert in income tax—assisted in the institution of new taxation and the [651] fixing of civil service establishments. Income tax in modern form was first imposed in 1928, but proved relatively unproductive; in effect it was paid mainly by officials and foreign companies. A major change in the taxation of agricultural produce was made in 1931, based on a new system of tax collection at markets—the 'place of consumption' method—without the need to assess or measure the growing crops. A financial Inspectorate was introduced. Efforts both resolute and skilful were made in 1927 to free 'Iraq from the burden of its share of the Ottoman Debt, of which £ (Turkish) 7 million had fallen to its share, with a further £T2,500,000 of accumulated interest. The Minister of Finance arranged to buy Ottoman Debt securities in the open market and, after handing these to the Debt authority to an extent of £1,228,000 sterling, could arrange to pay off the small remainder by instalments. Thus, at the cost of finding funds from current revenue for debt extinction, the State could enter the League happily unencumbered.

652 436 The proposed foundation of a National Bank, often discussed, was still postponed. The Indian rupee currency, which had served 'Iraq well for fifteen years, was superseded early in 1932 by an 'Iraqi currency employing the dinar (equivalent to a pound sterling), divided into a thousand fils. Currency resources and the note issue were supervised by a Board in London, and rested on a basis of sterling assets. The confident reception of the new currency was the more gratifying as 'Iraq suffered not only temporarily from a number of 'slump' bankruptcies, but chronically from an adverse 457 trade balance. A wide visible gap existed between the value of its 439 exports and that of its unavoidable imports of fuel, manufactured articles, and some foods. The invisible exports which were assumed to fill the gap were the expenditure by the British forces, diplomatic and archaeological missions, charities and foreign schools, pilgrims, tourists and foreign companies, and the profits of the Persian transit trade. The progressive slackening of the last mentioned, in spite of lowered transit dues, was a serious feature of the times. Persian restrictions, Russian competition, the diversion of

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

goods from the trans-'Iraq route to Muḥammara and the new Persian port of Bandar Shahpur all contributed to lessen the long-profitable transit trade, whose sentence of extinction could not, it seemed, be long delayed unless the Mediterranean route across Syria could be developed; and of this there were hopeful signs.

Banking continued in the hands of local *ṣarrafs* and the three British Banks: the Ottoman, Eastern, and Imperial Bank of Persia. The adoption of the decimal system was officially proclaimed in 1931, though twenty years later the *ḥuqqa*, the *taghar*, the *mann*, and the *dhira'* were still widely in use. Wholesale and retail trade followed familiar channels, with British firms predominating in the foreign element; 30 per cent. of the country's imports were of United Kingdom origin, though neither in this nor in any commercial operation did the Mandatary claim advantage over competitors. Imported goods found favour less by quality than by cheapness; this allowed Japanese competition for the first time to intrude, especially in cheap silk and cotton textiles. Woollen goods and steel came from Belgium, sugar from Holland, vehicles from America, wood from Scandinavia and Rumania, rice and tea from India, and most of the rest, notably cotton textiles, pumps and machinery, from Great Britain. The exports, as ever, were of dates, grain, hides and skins, wool, intestines, liquorice, and live animals. These at lowered prices held their own satisfactorily during the period of depression. Monetary conditions in Europe led, after 1930, to export of gold from 'Iraq, giving a temporary stimulus to its economy.

Until the hard times of 1929 to 1932, which they survived creditably, municipal development and the public services were expanding. A Municipal Law of 1929 superseded the Turkish regulations, municipal revenues were overhauled, and the hundred townships of every size and degree pursued their work of street improvement, bridge building, and provision of gardens, electric power plants, and sometimes officials' houses. In the major towns a period of rapid suburban development began, absorbing capital used hitherto in the transit trade. A 'New Baghdad' was planned on the right bank of the Tigris. The concession given in 1912 for electric power was amended and confirmed, after years of negotiation, in favour of the Baghdad Power and Light Company, and a new power-house came into operation; the tramway project was abandoned. Tolerable hotels appeared in the three cities and in Kirkuk, supplemented by Railway rest-houses at smaller towns. The technique of brick-making, the methods in the building industry, the types of modern dwelling-house, domestic equipment, the scale and resources of the shops: all these advanced incomparably beyond Ottoman standards. European dress was

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

722 was exempted from licensing and price-fixing. During 1945 all
434 controls were discontinued as far as sterling-area commerce was concerned, and traders with one accord sought supplies from every quarter; but freedom of traffic was still hampered by shipping shortages, currency restrictions, and world-wide dearth of goods.
• 457 The country's requirements in 'hard' currencies, chiefly dollars, were met by an arrangement with Great Britain in March 1945, whereby sums up to the equivalent of $14 million could be converted from 'Iraq's accumulated sterling balances, an arrangement which was to be annually re-negotiated. The restricted convertibility of 'Iraq's own dinars into dollars remained incomprehensible to the public, as to publics everywhere.

722 In the task of economic control, which fell ultimately to the lot
647 of local officials, helped, it might be, by the municipality or Chamber of Commerce, more than moderate results could not be expected from improvised systems based on no adequate statistics or machinery, and applied by unspecialized and impecunious officials to a puzzled and resentful public. The higher economic control of the territory, under a law repeatedly revised and productive of innumerable regulations, was placed originally in the hands of a Central Supply Committee, later in those of a smaller ministerial body, the High Supply Committee, which long survived the war. Many problems called for resolution at Cabinet level, where they multiplied disagreement between ministers. Departments of Transport, Imports and Local Resources, founded early in the war and served by British as well as 'Iraqi officials—Lloyd, Grice, le Blanc—were grouped early in 1944 under the Ministry of Supply established for the purpose; its first Adviser, Colonel P. Bayliss, after a few months of dynamic and impatient activity, retired through disagreement with his colleagues. An Anglo-American-'Iraqi Co-ordinating Committee lasted for a few months from midsummer 1944. Outside the territory, but concerned with its output and controlling foreign supplies to it, was the Middle East Supply Centre in Cairo, of which a conference attended by 'Iraqi delegates was held in Cairo in April 1944; and 'Iraq had in 1943 been toured, under M.E.S.C. auspices, by a Scientific Advisory Mission which produced the valuable reports of Dr. B. A. Keen and Dr. E. B. Worthington. The Centre performed important services in conditions where benevolent inter-territory control was indispensable; it was, nevertheless, commonly blamed in 'Iraq for its meagre allocation of supplies, and its abolition late in 1945 was unregretted by 'Iraqis to whom their own country's needs were paramount, those of the Allies and of the War remote and meaningless. It was succeeded until 1947 by a Supply Mission which kept control of a few scarce items of supply.

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

652 647 1951 establishing its programme for the ensuing five years and allotting an expenditure of some ID 155 million[1] within that period; but it became apparent soon afterwards that revenues in excess of this would, under revised oil agreements (p. 376) be available. It was at this stage clear to all that the acquisition of this copious revenue, which in the absence of some suicidal folly or grave misfortune would accrue punctually and reliably for many years, must completely transform 'Iraq's economy and rate of evolution. Its history indeed from 1951 onwards should be that of a territory extraordinarily favoured in all that appertains to, or can flow from, the resources at the disposal of its Government. Its curse had for centuries been poverty; thanks to its discovered and exploited oil deposits, it stood now at the threshold of an era of abundant wealth; and this must, besides its blessings, bring accompanying responsibilities, stresses and dangers, both moral and economic.

439 [457] The territory's immediate trade balance, which future opulence would doubtless affect, still showed in 1951 its habitual deficit. This was compensated partly by drawing upon the war-time sterling balances, and partly by invisible items as of old. The country's imports were, as ever, principally those of cotton, woollen, and silk textiles: iron, steel, and machinery: electrical goods: vehicles: tea, coffee, and sugar: chemicals, cement, and timber. Nearly half of these were provided by Great Britain, with India, the United States, and Belgium as other main suppliers and to a lesser extent Italy, Holland, and France; Germany and Japan had disappeared from the list of providers. Exports, which the country's evolution had left little changed over many years, were still those almost exclusively of its agricultural and natural products. Exported barley amounted to a yearly average of some 250,000 tons, wheat was shipped occasionally but irregularly—and not at all between 1940 and 1949; maize, millet, and oil-seeds (cotton, sesame, and linseed) were usually available in small quantities. The co-ordinating authority for all grain exports was the para-statal Grain Board and, working with it, an Agricultural Export and Import Company. Dates, to the important yearly extent of some 250,000 tons, were dispatched to more than forty countries. Cotton had disappeared after 1941, but crept back into the export list in 1947. Other items in the slight volume of exports were animals driven to the Levant countries, wool sent to France and America, and hides and skins, gums and gall-nuts consigned to various countries. Hopes that tobacco might be added to this list depended upon improvement in the structure and products of the local tobacco industry. New

[1] The provision for 1951 was to be (in thousands of dinars) 9,364: of 1952, 20,460: of 1953, 28,390: of 1954, 31,600: of 1955, 32,335: of 1956, 33,225.

464 production side, is quite common. Often foreign managers are
472 employed as experts on the basis of a monthly or annual salary,
473 sometimes with a commission in the form of a percentage of net profits. In one case at least production management is given to an independent foreign firm of engineers against a fixed annual payment. This so-called "managing agency system" has been recently introduced in Iraq and has not given rise to any complaints yet. The "system" however has resulted in many abuses in India where it is widely used, and it is now under investigation in that country.[1]

648 6. **Foreign Capital and Participation**: Except where foreign enter-
●457 prise has obtained a concession for the development of important
471 resources such as oil, or the supply of light and power as in the Baghdad area, there is very little foreign capital invested in industry as such. Foreign capital for reasons beyond the scope of our discussion has been invested in Iraq mainly in trade and commercial banking (short-term lending). It may be to the benefit of Iraq to induce foreign capital, and perhaps management, to participate in industry. One of the best ways to get the advantage of foreign technical skill and experience, and to bridge the gulf between the existing state of technique in Iraq and that attained by highly organised industry abroad, is to encourage foreign firms to establish branch factories in Iraq. Such branches would have their own capital and management in which Iraqi nationals and foreigners could join together on an agreed basis. It is possible that the limitation of market and geographical position may discourage foreign firms from taking this course. Some of them would require special concessions to induce them to come to Iraq. Many of them are perhaps ignorant of the possibilities that exist. And many others may require some guarantees as to: (a) the remittance of profits and repatriation of capital, (b) equal treatment with Iraqi capital and industry, (c) in case of nationalisation, fair and equitable compensation. In all these respects Iraqi practice in the past has been quite generous, but there is no legislation which clearly defines government policy toward foreign enterprise. The Law for the Encouragement of Industry (1950) stipu-
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471 lates that 55 per cent of the capital should be owned by Iraqi

[1] *The First Five Year Plan, Draft Plan.* Government of India, Planning Commission, July 1951, p. 161.

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651 654* oil. It is possible that the rapid rise in output which may be expected to take place in other Middle Eastern countries, with the possible exception of Iran, will tend to restrain prices. In any event, it would be imprudent to rely on the receipt of all the anticipated revenue. In addition, part of the income should be set aside to meet contingencies and emergencies, particularly further increases in costs. The present low level of wages will unquestionably rise as the development program gets under way and demand for labor increases. Moreover, the rearmament effort under way in the West may exert a constant upward pressure on the prices of materials and equipment.

654* 457 Since the oil revenues will be received in the form of sterling, Iraq should have ample foreign exchange to defray the cost of imports required for the development program. There should be no need for foreign loans except perhaps to meet part of the hard currency needs. As a member of the sterling area, Iraq is dependent on the sterling area dollar pool for allocations of dollars. Until 1951 Iraq received a fixed annual allocation of hard currencies, but under a new arrangement, effective provisionally for one year, the United Kingdom has undertaken simply to furnish sufficient dollars to cover Iraq's essential needs. For part of the extraordinary dollar import requirements arising out of a rapidly expanding development program, Iraq may still have to borrow abroad.

Obstacles to Development

654* While financing the program will present no difficulty, the rate of expenditures envisaged will pose serious problems. To carry out a five-year program involving an outlay of ID 168,000,000, the Development Board would have to spend ID 15,000,000 in 1952-53 and successively larger sums up to a total of ID 50,000,000 in 1956-57. The experience of other countries in process of development illustrates that it is not easy to spend money rapidly and efficiently on well-conceived projects. Expenditures in most cases tend to fall short of the targets. The International Bank, for example, has noted that disbursements on its loans to underdeveloped countries seldom conform to original schedules. In Iraq the development program will require the government to gear itself to an annual rate of expenditures which at the end of the next five years will need

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an adviser, who should be given a small staff, could assist in determining the impact on the economy of particular projects and the program as a whole and in watching for developing strains and bottlenecks. In view of the importance of economic considerations in the formation of the Board's policy, the economic adviser should have the right to participate in all meetings of the Board. His presence at meetings would also afford the Prime Minister and the Minister of Finance, who are ex officio members of the Board, an opportunity to receive a direct report on how the development program might affect matters of broad economic policy falling outside the immediate scope of the Board itself.

The adviser would also be able to indicate the types of additional information which should be developed in order that the economic repercussions of the program may be more carefully observed. For this reason the Mission suggests that the fact-finding agencies of the government be greatly strengthened and reorganized by merging into a single statistical organization the Directorate-General of the Census and the Principal Bureau of Statistics, establishing a special section on agricultural statistics within the Ministry charged with agriculture, and expanding the Department of Labor in the Ministry of Social Affairs.[8]

IX. Impact of the Program

The execution of a development program of the magnitude recommended by the Mission is bound to have great repercussions on the economy. The magnitude of the expenditure in comparison with the current rate of government spending has already been noted, but its effect on foreign trade, on national income and on employment can also be assessed in broad terms.

If the trade financed by the oil companies is excluded, imports regularly exceed exports by a large margin. For example, in 1949 imports were valued at ID 30,000,000 and exports at ID 12,000,000, leaving a gap of ID 18,000,000. The gap was much larger in 1948 and much smaller in 1950, so that the figure for 1949 represents approximately the average for the last three years. To a

[8] See Appendix C, *Statistical Organisation.*

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457 certain extent, this has been financed by a net drawing on Iraq's sterling balances, but the most important source of finance has been the oil companies. During the last three years they have transferred to Iraq an average of nearly £10,000,000 in sterling annually. Part of this consists of royalties and other contractual payments paid to the government and subsequently spent by it, mainly on projects in the capital budget. The larger part, however, has been transferred to pay for current expenses of the oil companies for production, construction projects and exploration. These expenditures have directly or indirectly provided income for the people, which in turn has created a demand for imported goods; the foreign exchange has provided the means to pay for them. Thus the activities of the oil companies can be said to have both caused and financed a large part of the gap.

654* 439 457 The same process will continue as expenditure by the Development Board rises. The Mission envisages that this may reach ID 50,000,000 in about five years' time. Some imports of materials or machinery will result directly from the requirements of the program. The balance of the Board's expenditures will, however, be for the most part made in Iraq. The large quantity of money, which will thereby be put into circulation, will pass from hand to hand and most of it will eventually be spent on imports. This means that in the next five years imports can be expected to increase by a large proportion of the ID 50,000,000 to be spent by the Development Board. At the least, the value of imports is likely to be double what it has been in the last few years.

654* 434 The magnitude of the program and its effect on the economy may also be illustrated by consideration of the national income. The national income of Iraq in 1949 was estimated by the Statistical Office of the United Nations at a figure in dollars equivalent to either ID 100,000,000 or ID 150,000,000, depending on the exchange rate. On the basis of some rough and incomplete calculations the Mission estimates that the actual figure probably fell near the middle of this range. It may now be nearer the upper end, since the price and the volume of production of some commodities, especially cotton, has greatly increased and some industrial expansion has taken place. Thus an increase in the government's annual income from oil of ID 50,000,000 would alone be equivalent to at

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vegetables, on the other hand, can be increased more readily and a tendency for prices to rise will probably induce an increase in output fairly quickly.

There will also be considerable changes in incomes. Increased or more remunerative employment would of course benefit a large number of workers. Many agricultural workers are likely to benefit. As a result of the greatly increased activity in the import trade, merchants are likely to be very prosperous. In certain localities housing shortages may develop, thus permitting landlords to raise their rents. On the other hand, some classes, particularly civil servants and others employed at fixed salaries, may stand to lose owing to higher prices of some of their essential needs.

It will be an important task of the government to insure that these changes do not result in an inequitable shift in the distribution of incomes. This may be achieved in various ways: by export taxes on agricultural commodities whenever prices rise substantially; by changes in the rates of import duties, the burden of which at present falls heavily on the poorer classes; by raising the exemption limit for income taxes and by enforcing stricter assessment and collection in the higher brackets; or by an increase in allowances to civil servants. The Mission does not recommend specific remedies for a situation whose nature can only be forecast in general terms. It would stress, however, the need to keep a careful watch on the nature of the changes that the economy is undergoing. The Mission therefore recommends strongly that a committee be formed consisting of the proposed economic adviser to the Development Board and high-level representatives of the National Bank and the Ministries of Finance and Economics. This group would recommend directly to the Council of Ministers the adoption of timely measures aimed at checking any dangerous inflationary trends and at offsetting any tendency toward gross inequities in the distribution of income.

No mention has yet been made of the possibility of loss of foreign exchange by the National Bank as a result of the development program. In itself the program cannot cause an increase in expenditure on imports in excess of the outlay on the development program. In fact, as there will be some need on the part of individuals or organizations to hold larger cash balances, they will save

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654* 457 part of their income in this form and there will be some net gain of foreign exchange by the National Bank.

The effect of the development program on the economy as a whole, however, has to be borne in mind. A general rise in the level of prices and wages will tend to increase consumption at the expense of savings. At the same time, there will be considerable incentive to make more investment outside the development program than in the past. Thus, quite apart from the effect of the program itself, there will be some pressure to expand imports. Whether this pressure could be sufficiently strong to cause an expansion of imports by more than the amount of foreign exchange used to finance the development program is uncertain, but the possibility exists. It will be important, therefore, to avoid any further pressure on the payments position by an excessive expansion of credit to business or by financing a large budget deficit through bank credit.

654* 452 As long as ordinary government expenditures not immediately related to development are kept down and tax income maintained, there should be no serious danger of ordinary budget deficits. In fact, as national income rises as a result of increased development expenditures, ordinary revenues will probably rise more rapidly than ordinary expenditure. The government, however, will have to incur some expenditures which were, in the past, covered by income accruing from oil. Now that this income has been earmarked for the purposes of development, the deficiency has to be made up from ordinary revenue. It may, therefore, be necessary in the first few years for the government to borrow from the Development Board a part of the funds accruing to them, repayment being made when ordinary revenues begin to rise substantially. This should not interfere unduly with development, as the pace of actual expenditure on development is likely to be slow initially.

Measures to curb credit expansion may prove more difficult as long as the banks are extraordinarily liquid. Statutory reserve requirements would have to be greatly increased to permit effective credit controls. The private banks, most of which are foreign-owned, have, in the past, however, concentrated almost exclusively on the financing of trade, particularly foreign trade. Even if increased opportunities arise in the future, they may show little dis-

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stood at only ID 650,000, consisting almost wholly of advances to the Baghdad Water Board and the Industrial, Agricultural and Mortgage Banks. Almost all of the remaining assets of the Banking Department consist of Iraqi government securities valued at ID 5,490,000.[3]

There are five commercial banks in Iraq, of which three are foreign banks. Of the two Iraqi banks, one, the Rafidain Bank, was organized and is controlled by the government and serves as the depository of government funds. These banks confine themselves principally to the short-term financing of foreign and domestic trade and have always kept themselves very liquid. Thus, as of March 31, 1951, their total liquid assets, including notes and coin, current accounts abroad, discounts and davances, but excluding the statutory 15 percent reserve maintained with the National Bank, amounted to about 87 percent of their current and short-term liabilities, and even 70 percent when advances which are primarily short-term are kept out of account.[4] The operations of the commercial banks are supplemented by the *sarrafs* which are principally engaged in financing small traders. Their number has been drastically reduced in the last year or two, owing partly to the exodus of the Jews and partly to their failure to meet the requirements of the bank control law that they submit their accounts and divorce their banking and trading operations.

The total foreign exchange assets of the banking system are quite considerable. As of March 31, 1951, they amounted to about ID 50,400,000. Total holdings tend to fluctuate primarily because of the influence of harvests upon exports. Thus a harvest failure in 1947, followed by another bad harvest in 1948, as well as the effect of the outbreak of war with Israel in 1948, were instrumental in reducing holdings from ID 64,900,000 at the end of 1946 to ID 43,400,000 in September 1949. As the result of two successive good harvests, reserves then rose in the ensuing year and a half by ID 7,100,000.

Part of Iraq's sterling assets have been frozen since the war, releases being governed by a five-year agreement effec-

[3] See statement of the National Bank's assets and liabilities in Table II in Appendix.

[4] For a consolidated statement of the principal assets and liabilities of the commercial banks, see Table III in Appendix.

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457 tive from July 15, 1947. In a supplementary agreement con-
453 cluded in February 1951 the National Bank obtained an additional release of £2,000,000 and a guaranty of further releases up to £6,000,000 over the next two years, whenever necessary to maintain its free sterling working balances at a level of £6,000,000. As of March 31, 1951, the banking system still held £29,400,000 in blocked sterling out of total sterling assets of £49,700,000. Since Iraq's foreign exchange assets consist almost entirely of sterling, Iraq must apply to the British government for hard currency releases from the sterling area pool to meet dollar payments. Until February 1951 such releases were limited to specific periodic sums, but a new agreement for one year concluded at that time provided that sufficient releases would be made at all times to cover Iraq's essential requirements. There was no specific provision referring to the large requirements arising out of increasing investment outlays.

454 While short-term financing has not been a problem, the financing of the longer-term capital requirements of industry and agriculture has always been difficult. The amount of savings channeled into the banking system has always been small. Savings accounts in the commercial banks have varied between ID 1,700,000 and ID 2,400,000 over the last two years, and the total savings deposits with the postal system have been less than ID 900,000. Considerably more is undoubtedly saved, but much of it takes the form of hoarding. Thus it is generally assumed in Iraq that virtually all of the 100-dinar notes and a considerable part of the 10-dinar notes in circulation (ID 9,000,000 and ID 9,500,000 respectively as of March 31, 1951) are hoarded. There is a general preference for the investment of capital in urban and rural property, which are regarded as affording a high degree of security, and in commerce which yields a high return. Industry and agriculture have generally been starved of capital, although investments in these fields are slowly becoming more acceptable.

453 As a partial remedy for this shortage of capital, the government has established three institutions to finance industry, agriculture and building. Although each of these is capitalized at ID 1,000,000, the government has actually furnished only ID 550,000 to the Agricultural Bank, ID 600,000 to the Industrial Bank and ID 100,000 to the Mortgage Bank. While each bank has tried

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consequence not only of the increase in population, but also of the shift from the rural areas, where barley is often a staple element in the diet.

Large quantities of rice are produced, but the surplus for export has always been very small. The only other cereal exported in any quantity is millet.

Animal Produce. The principal animal products exported by Iraq are wool, live animals, hides and skins and casings (intestines), usually in that order of importance. The sheep is the main source of these products, providing all the wool and usually the bulk of the other products. As with dates and cereals, the quantities exported vary greatly from year to year, sheep being vulnerable not only to disease, but also to extremes of winter cold and summer drought. In contrast with the other main exports, however, there has been no tendency for exports of animal products to increase. Exports of wool, hides and skins have, on the whole, been below prewar levels, while those of casings have fallen off badly. As animals are often taken across the frontier on the hoof, customs returns of live animals exported are not reliable. The recorded decrease since before the war, is, however, too large to be discounted.

Information on the animal population and on the domestic consumption of meat and other products is sketchy and unreliable. A rise in the consumption of meat could well explain the loss of exports of live animals, but this in turn would tend to make available a larger, not smaller, supply of most by-products. Part of the explanation of the fall in export products may lie in a declining sheep population owing to the gradual shift from the pastoral life to settled agriculture and from agriculture to the towns. The monograph on agriculture and animal husbandry discusses the shortcomings of the livestock industry and recommends measures to improve livestock raising and the quality of livestock products. The value of exports of animal products is likely to continue its downward trend unless these measures are undertaken speedily and vigorously.

Sheep are especially important as a potential source of dollars. Wool is the most important export to the United States, which also takes all the casings exported and considerable quantities of

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439 457 skins. Not all the dollar income accrues to Iraq, however, partly because invoices are regularly undervalued and also because some commodities are sold through intermediaries in the Lebanon.

439 **Other Products.** In the years 1947 to 1949 the remaining exports consisted of the following: bricks and sand exported for use by the Anglo-Iranian Oil Company to the value of about ID 300,000 a year; a variety of agricultural products, whose total value did not exceed ID 500,000 in any one year; and cotton. Iraq has always exported a little cotton, but in the best years, just before the war and again in 1950, its value was only about five percent [248] of all export receipts. The position is now changing radically. Iraq, like several neighboring countries, is experiencing a cotton boom. Under the stimulus of high prices, the area under cultivation has increased rapidly in the last few years and predictions for the 1951 crop have ranged as high as 150,000 tons of seed-cotton, compared with 25,000 tons the year before. If the fellah's traditional aversion to a crop he cannot consume himself has been permanently overcome and if he can acquire the necessary knowledge for good cultivation, cotton could very soon become one of Iraq's most important exports, if not the most important. As a summer crop, however, its cultivation will be hazardous until the control of the rivers gives better assurance of a summer water supply.

Import Policy

439 656 457 All foreign transactions are, with certain exceptions, subject to exchange control. Imports from hard currency areas have been governed by licensing systems and have been limited to goods such as agricultural and industrial machinery, automobiles, trucks and drugs. Before 1948, imports from other areas were not subject to license, except for about 100 items, mainly luxuries. In that year, however, Iraq experienced a very large drain on her foreign exchange reserves and a more complex system was introduced.

Under the system now in force, all imported goods have been placed on one of several lists, the two longest consisting of "unlimited" and "limited" goods. Each merchant is given an annual quota in dinars, within which he can import unlimited goods without restriction, provided he obtains a license for each purchase. Alternatively, he can spend a small part of his quota on "limited" goods, but only up to a fixed amount.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

Unlimited goods consist mainly of the goods purchased by the common people such as tea, sugar and cotton textiles, and a variety of other goods considered essential, such as drugs and medical equipment, educational matter, industrial, electrical and agricultural machinery, transport equipment and raw materials for local industries such as gunny bags, certain vegetable oils, *mastika* (for *arak*), tanning extracts and non-ferrous metals. The principal object of the system, when it was introduced, was to prevent a shortage of these necessities—and hence high prices—at a time when imports as a whole had to be restricted to protect the country's exchange reserves. As an additional safeguard, each application for an import license was scrutinized to insure that the articles being purchased were not too highly priced. Since Iraq's foreign exchange position greatly improved in 1950, the import of unlimited goods is now permitted without any quota limitation.

The goods on the limited list, while not strictly luxuries, consist of goods considered less essential than those in the unlimited list. This includes, for example, ready-made clothing of various kinds, automobiles, matches, and certain types of household utensils and electric ware. Luxuries, such as bananas, confectionery, cosmetics, Persian rugs and nylon stockings, were placed on a third list of goods "without foreign exchange." These goods could be purchased only by merchants who held a special license to import "without foreign exchange," which meant that they had to acquire foreign exchange through other than the official channels. Such licenses also permitted them to purchase goods on the other two lists.

Foreign exchange can be acquired without official license in a number of ways, of which the following are probably the most important: by undervaluation of exports, especially wool, hides and skins; by the export of dates to neighboring countries in small craft (in this case retention of foreign exchange is legally permitted); by smuggling, although there is probably a net inflow of smuggled goods; by sale of dinar notes to foreign pilgrims to the Holy Cities; and by overvaluation of imports. The present system was introduced in order to compel merchants to use these resources instead of drawing on the national exchange reserves. Although the system has been successful in that there has been a very

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

439 656 457 extensive use of private exchange holdings, particularly in 1949 when licenses to the value of over ID 10,000,000 were issued, it may well be that it has also encouraged the illegal acquisition of foreign exchange.

A fourth list consists of prohibited goods. This is purely a protective device, almost all of the goods in this list being produced in Iraq. These include a variety of agricultural products such as sesame seeds and cottonseed or their oils. Several of the newer industries have also been protected by the prohibition of their products, for example, beer, cement, cotton yarn, aluminum ware, alcohol and hides.

Although the improvement in the foreign exchange situation has led to a relaxation of the quota limitation, the other restrictions remain. In particular, import licenses still have to be obtained for each purchase. Although it is maintained that licenses can now be obtained quickly, this appears to act as at least a psychological deterrent to merchants. One of the objects of the licensing system is to restrict importing to bona fide merchants, but if this is considered necessary, it could, of course, be achieved by the issue of a general importer's license, good for a period such as a year.

439 656 As the economy develops and the standard of living rises, which it may do rapidly in the near future, the demand for goods now on the limited and prohibited lists is likely to increase and restrictions on imports of these goods might easily have an inflationary effect on prices. This would hit the artisan, the clerk and the civil servant, and might increase the cost of the development program. Any extension of prohibition to textiles and other goods produced in Iraq would, of course, hurt the poorest classes. Under these circumstances, it will be very difficult to manage so rigid a system.

A much more flexible instrument would be the customs tariff, but little coordination of the import licensing system with the tariff [651] seems to have been achieved. At present the tariff is primarily a means for raising revenue and, as such, imposes the greatest burden on those who buy bulk commodities. It hardly conforms to the objectives of a licensing system that aims at a plentiful supply of these goods at low prices. The principal objection put forward to higher duties on luxuries is the increased premium

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

thereby put on smuggling which is difficult to control in a country with long land frontiers, even with a large police force. On the other hand, smuggled goods can now be purchased quite openly, and it is hard to believe that enforcement could not be made more effective.

In any event, outright restriction of imports could cause prices to rise and so put almost as great a premium on smuggling as a high tariff. The government has tried to prevent excessive mark-ups on certain goods such as radios by price control measures, but the control is by no means fully effective.

The government has also supplemented the system by entering the market itself. For example, arrangements have been made under the recent Trade Agreement with India for the import of cotton textiles and gunny bags, in part on government account. The government has also made direct purchases from abroad of its own requirements (e.g. tires). The effect has, however, not always been as intended, merchants being hesitant to buy with the prospect of large government stocks hanging over the market.

On the whole, a less complex system of import control would seem better suited to an economy like that of Iraq, whose requirements are likely to change in composition and to increase quite rapidly. Fewer regulations, more strictly enforced, are likely to serve better the two ends of social justice and public revenue.

Balance of Payments

The bulk of foreign transactions are carried out through the commercial banks, which are subject to exchange controls, or through government channels such as the National Bank. However, numerous transactions pass through other channels and many of them are virtually impossible to estimate. For this reason the Mission has not attempted to construct a true balance of payments. Table 14 shows the foreign exchange transactions passing through the principal official channels, so far as they are known to the Mission. The other items which would enter into a complete balance of payments are discussed subsequently.

As will be seen, even this account, which it should ordinarily be possible to balance, is subject to a wide margin of error for which no explanation is available. The general significance of the

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TABLE 14

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OFFICIAL EXCHANGE TRANSACTIONS—1949 AND 1950
(in millions of dinars)

	1949		1950	
I. ITEMS NOT INVOLVING THE OIL COMPANIES				
A. Trade				
Exports	+14.9		+20.6	
Imports	−20.0		−24.8	
		−5.1		−4.2
B. Other Current Items				
Transfers by RAF and foreign companies	+ 1.1		+ 1.3	
Interest and profits (net)	+ 0.4		+ 0.8	
Payments to Crown Agents and foreign contractors	− 0.4		− 2.2	
Other items (net)	− 2.2		− 2.8	
		−1.1		−2.9
C. Capital Items				
Private transfers (net)	− 0.1		+ 0.5	
Public transfers	—		+ 2.5	
		−0.1		+3.0
II. ITEMS INVOLVING THE OIL COMPANIES				
Transfer for local expenditure (IPC Group)	+ 6.7		+ 4.4	
Transfer for local expenditure (AIOC)	+ 1.1		+ 0.3	
Royalties, etc. (IPC group)	+ 2.1		+ 3.2	
Net advances (IPC group)	− 1.0		+ 1.0	
		+8.9		+8.9
		+2.7		+4.8
III. ERRORS AND OMISSIONS		−3.9		+1.8
IV. INCREASE (+) OR DECREASE (−) IN FOREIGN BALANCES OF THE NATIONAL AND COMMERCIAL BANKS		−1.2		+6.6

table is, however, clear. The transfers made by the oil companies have financed a considerable deficit in trade and a smaller one on other items.

The accounts presented above, however, do not by any means

7: International Bank N. S-4 (1951) 1952 MH1 Iraq MH1

include all foreign transactions. There are, in addition, three major self-balancing accounts. In the first place, there are the additional operations of the IPC group. Goods valued at ID 9,200,000 in 1949 and at ID 7,400,000 in 1950 were imported on their own account by the IPC group for use in their operations, while 3,700,000 and 6,000,000 tons respectively of oil were exported and a small quantity of equipment re-exported. Theoretically it would be possible to enter these items in a balance of payments as merchandise trade and, after subtracting local expenditure and royalties, offset them by appropriate entries for investment and profits. As they do not, in fact, affect the exchange position, it is simpler to omit them than to make what are necessarily arbitrary calculations.

Secondly, there is an important group of transactions by the AIOC and its associated distributing and producing companies, the ROC and the KOC. The ROC imported about ID 1,000,000 worth of goods, mainly petroleum products, in each year. The net proceeds of the sale in Iraq of imported and locally produced petroleum products, after deduction of local expenses and taxes, were for the most part placed in special local accounts on which the AIOC drew to pay for certain expenses in Iraq. The principal items were various shipping dues in the Shatt al Arab amounting to somewhat more than ID 1,000,000 and building materials exported from Basra. The final balancing item was an increase or decrease in the accumulated balances in the AIOC's or the ROC's local accounts, i.e., an increase or decrease in Iraq's liabilities in foreign dinar accounts. It is known that in 1950 there was a considerable accumulation of unused funds by the ROC.

Finally, there is a considerable body of transactions, mainly illegal, which do not pass through official channels. The approximate value of trade not accounted for in the items already discussed is shown in Table 15.

Part of the discrepancy may be explained on grounds of the difference in timing between receipt or dispatch of the goods themselves and payment therefor. Furthermore, the customs returns overestimate imports by recording the valuation of the major part of these goods c.i.f. Baghdad or Mosul, thus including transportation inside Iraq. Some items, which were really trade, may have been included under other headings (e.g. payments to the Crown

7: International Bank I' S-4 (1951) 1952 MH1 Iraq MH1

TABLE 15

MERCHANDISE TRADE
(in millions of dinars)

	1949		1950	
	Exports	Imports	Exports	Imports
Customs returns	12.4	40.5	22.0	37.6
Less				
Oil Companies trade	− 0.7	−10.3	− 0.8	− 8.4
"Officially" financed	−14.9	−20.0	−20.6	−24.8
Discrepancy	− 3.2	10.2	0.6	4.4

Agents). But the principal explanation of the large amount of residual imports is the import of goods "without foreign exchange." Licenses issued (but not necessarily used) amounted to ID 10,800,000 and 7,400,000 in 1949 and 1950. These were paid for with foreign exchange acquired by the methods already described. Part of this foreign exchange was, no doubt, also used for travel abroad, particularly in the Lebanon. Insofar as receipts and expenditures in "unofficial" foreign exchange did not balance in any one year, there must have been a balancing item in these transactions, representing capital export or import. No data is available on this, but it is generally believed that there has been a considerable export of capital in recent years.

IX. Government and the Economy

Until recently the goverment, handicapped primarily by a shortage of funds, played a comparatively modest role in promoting economic life. In agriculture the main effort was confined to the production and distribution of seeds, the promotion of cotton and citrus culture and the combating of diseases and pests, particularly the locusts. Some help was given through the establishment of the Agricultural Bank and of a government organization for the rental of agricultural machinery. One project for the settlement of smallholders on newly irrigated government land in the Dujaila district near Kut was initiated. Outlays on irrigation and flood control,

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
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439 Iraq's chief supplier. After the war Britain regained her position, but has in the last two years lost some ground to Japan and Germany. In view of the nature of Iraq's non-petroleum exports, the value and direction of trade in them varies considerably from year to year. Iraq's chief customers are Britain, India, Japan, and Holland.

457 439 Iraq has always had an adverse balance of visible trade, which is now largely offset by oil revenues. The volume as well as the value of both imports and exports has increased considerably in recent years. With the relaxation of war-time controls in 1946 a sudden outburst of spending, with no corresponding increase in exports, raised the visible adverse balance from ID8 million in 1945 to over 36 million in 1948, an expansion which was largely met by agreed releases from Iraq's accumulated sterling balances. Thereafter imports diminished in consequence, among other factors, of the decline in purchasing power, stimulation of local industry, imposition of import restrictions, and the effect of the Great Powers' rearmament programmes on the availability of commodities. The stockpiling which these programmes involved, combined with good harvests in Iraq, the devaluation of the dinar, and the relaxation of export restrictions produced at the same time a rapid increase in exports. Accordingly the adverse balance fell, by 1950, to ID15 million, only to rise again with higher commodity prices and shipping charges and local stockpiling against the risk of war. As a result sterling balances were further depleted until greater oil production and the more favourable oil agreement of 1952, by increasing the value and quantity of invisible exports, redressed the overall balance.

MAIN SOURCES OF IMPORTS

Country	*Value of Imports (ID000)*		
	1950	*1951*	*1952**
Great Britain	18,375	17,200	23,129
U.S.A.	3,079	7,066	11,300
Italy	2,369	3,637	3,580
Japan	829	3,610	3,133
Ceylon	2,269	2,830	3,285
Belgium	451	2,370	2,026
India	3,125	2,302	2,440
Syria	1,013	1,727	1,378
Persia	1,330	1,162	554
Holland	1,053	1,153	1,980
Czechoslovakia	578	1,055	830
Sweden	621	953	896
France	455	850	1,157
Germany, western	99	675	1,325
Total of all countries	37,595	50,871	61,845

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
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MAIN DESTINATIONS OF EXPORTS

Country	Value of Exports (ID000) 1950	1951	1952*
Great Britain	3,221	8,258	6,737
Holland	3,854	3,850	1,021
India	1,731	2,624	1,225
Lebanon	1,030	2,239	1,017
Japan	1,759	2,002	2,475
Syria	531	510	711
U.S.A.	631	964	491
Egypt	602	763	498
Kuwait	420	591	..
Jordan	286	1,430	500
Total of all countries	20,051	27,010	18,777

BALANCE OF TRADE
(ID000)

Year	Imports	Exports	Re-exports and exports ex-bond	Visible adverse balance
1947	39,946	13,800	1,523	24,623
1948	45,523	7,584	1,530	36,409
1949	40,501	12,076	1,280	27,145
1950	37,595	20,051	1,580	15,964
1951	50,871	27,010	2,001	21,860
1952*	61,845	18,777	1,244	41,824

.. = Not available. * Provisional.

NOTE: Crude oil exports and transit trade excluded.

(SOURCES: GB, Commercial Relations and Export Dept., *Iraq: Economic and Commercial Conditions in Iraq, 1953* by S. Simmonds, London, HMSO, 1953; Iraq Customs Dept., Statistical Section.)

Sterling Balances

439 During the Second World War Iraq accumulated a considerable balance of sterling; but by the Sterling Balances Agreement of July 1947 the bulk of her sterling assets held at that time were blocked in a special No. 2 Account, sterling subsequently received in respect of current transactions being held in a free No. 1 Account. Certain of the blocked sums were thereafter released annually to No. 1 Account, with a limit imposed on the amounts which could be withdrawn from that account for current transactions with scarce currency areas. Iraq's balances in July 1947 amounted to £57·9 million, of which £11 million were free. The free balances rose to £14·5 million by October 1947 but thereafter dropped suddenly, in consequence of, among other factors, expenditure on the Palestine campaign, and by June 1948 had been reduced to £3·5 million. They have subsequently risen steadily, because of more favourable trade balances and the oil agreement of 1952. The total balances have varied similarly, from £59·8

67: United Nations S-5 (1945-1954) 1955 MI Middle East
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Foreign trade and balance of payments

Exports of commodities other than petroleum fluctuate considerably from year to year, with changes in the size of crops, but an upward trend may be discerned in the post-war period. Merchandise exports, excluding petroleum, increased from an average of ID 12.6 million in 1945-47 to ID 22.9 million in 1951-53; this reflects both an increase in quantum and a rise in price. Imports, including goods brought in by the petroleum companies, rose still more rapidly, for the same reasons, from an average of ID 32.3 million in 1945-47 to one of ID 60.5 million in 1951-53. Over the period, the deficit in the balance of trade was covered by the foreign exchange disbursements made by the petroleum companies.

The leading exports continue to be, in addition to petroleum, barley and other grains, dates, cotton and wool. The increase in the quantum of exports shown in table 5 is due mainly to increased exports of grains, wool and cotton. The increase in imports covers all classes of commodities. Capital goods now account for a greater proportion of imports than they did before the Second World War. Excluding imports by petroleum companies, they dropped from 40 per cent of total imports in 1938 to an average of 36 per cent in 1946-48 but rose to 39 per cent in 1949-51 and 46 per cent in 1952-54. The increase has been particularly great in iron and steel products - from 52,000 metric tons in 1938 to 155,000 tons in 1953 - and in machinery and vehicles. Among foodstuffs, the most important increases have been in tea, imports increasing from 3,200 metric tons in 1938 to 12,200 tons in 1953, and in sugar, where the increase was from 44,000 tons to 101,000 tons. Imports of cotton textiles decreased, partly owing to greater local production, but those of rayon goods doubled between 1938 and 1953. Imports of chemicals and pharmaceuticals increased severalfold.

If exports of petroleum are excluded, the United Kingdom is by far the most important market for Iraqi goods; in 1951-53 it took 32 per cent of exports. It was followed by India, the Netherlands, Japan and Lebanon, in that order. If petroleum exports are included, France is the principal market, followed by the United Kingdom, Germany, the Netherlands and India. 1/ As regards imports, including those brought in by the petroleum companies, in recent years 36 per cent have originated in the United Kingdom, 16 per cent in the United States, 6 per cent in Japan, 6 per cent in Italy and 6 per cent in Ceylon.

Table 6 shows the movements in terms of trade, excluding exports of petroleum. It will be seen that, since 1946, export prices have shown little change while import prices have risen significantly, resulting in a deterioration in terms of trade. The inclusion of petroleum would greatly change the picture; since, as far as the Iraqi economy is concerned, the "export price" of petroleum is, in effect, the royalties and other payments made by the producing companies to the Government, the more favourable terms obtained by the Government under the agreements of August 1950 and February 1952 represent a sharp increase in receipts per unit of petroleum exports.

Table 28 shows the main items in the balance of payments of Iraq. It will be seen that, in every year except 1950, when exports were high while imports were

1/ In recent years, France has been taking nearly one-half of Iraqi exports of petroleum, Germany one-ninth and the United Kingdom one-ninth (Carl Iverson, Monetary Policy in Iraq (Baghdad, 1954), page 81).

Table 28. Iraq: Balance of Payments, 1947 to 1953

(Millions of Iraqi dinars)

Item	1947	1948	1949	1950	1951	1952	1953
Transactions of petroleum companies[a]:							
Exports f.o.b. and local sales ..	14.04	11.20	14.10	29.59	39.61	83.28	121.44
Imports c.i.f.	- 5.06	- 9.55	- 10.29	- 9.39	- 8.77	- 14.42	- 13.19
Remittances of profits, etc.	- 6.35	- 2.11	- 5.76	- 22.46	- 18.37	- 42.36	- 51.33
Recorded capital movements	5.06	11.56	9.59	10.12	6.85	13.23	- 3.26
Total	7.69	11.10	7.64	7.86	19.32	39.73	53.66
Other goods and services[a]:							
Exports f.o.b.	17.33	10.34	14.82	26.03	35.01	22.53	23.05
Imports c.i.f.	- 35.02	- 36.88	- 30.97	- 28.94	- 43.24	- 48.61	- 56.90
Services	0.13	1.83	2.92	3.86	- 0.17	- 0.51	0.56
Total	- 17.56	- 24.71	- 13.23	0.95	- 8.40	- 26.59	- 33.29
Private donations and capital[a]....	0.25	- 0.23	- 0.35	0.83	- 0.39	1.33	0.40
Official donations and long-term capital	- 0.95	- 0.52	- 0.02	2.53	0.17	1.12	- 1.47
Net errors and omissions	2.18	1.20	4.22	- 3.93	- 10.26	- 4.87	2.50
Total, excluding transactions of petroleum companies	- 16.08	- 24.26	- 9.38	0.38	- 18.88	- 28.81	- 31.86
Monetary movements[b]	8.39	13.16	1.74	- 8.24	- 0.44	- 10.92	- 21.80

Source: International Monetary Fund, Balance of Payments Yearbook, 1947-1953 (Washington, D.C., 1954).

a/ Minus sign indicates debit.

b/ Minus sign indicates purchase of securities or increase in assets.

67; United Nations E-5 (1945-1954) 1955
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437 reduced by rigid controls, there was a large import surplus, which was only partly covered by such items as expenditures made by pilgrims and tourists in Iraq, receipts from transit trade and expenditure by foreign vessels in Iraqi ports. The main capital transfer items in the non-oil sector were drawings on the Iraqi State Railway Loan and the loan from the International Bank for Reconstruction and Development, and repayments of loans. Part of the large debit items shown under "errors and omissions" probably represent flight of capital.

The deficit in the non-oil sector has, since 1950, been more than covered by the surplus in the oil sector. In the years 1948 to 1950, the combined value of imports made by the petroleum companies and the profits and salaries remitted abroad by them exceeded the value of the petroleum exported. The large amount of capital brought in by the companies for investment, however, resulted in an over-all surplus in the oil sector. Since 1950, the value of petroleum exports has greatly increased and the surplus has risen considerably.

During the years 1947 to 1949, the surplus in the oil sector failed to cover the deficit in other sectors, and Iraq drew heavily on its sterling balances and other foreign assets. 1/ Beginning with 1950, however, there has been an increase in foreign assets, owing to the surplus on current account; in 1952 and 1953, this surplus was very large. The foreign assets of the National Bank of Iraq increased from ID 35.1 million at the end of 1949 to ID 41.9 million in 1950 and, after a small drop in 1951, to ID 46.7 million in 1952 and ID 64.6 million in 1953; at the end of September 1954, they stood at ID 77.6 million. At the end of 1953, all but ID 1.9 million consisted of sterling assets. 2/

As Iraq is part of the sterling area, its needs for dollars have been met from the dollar pool of that area. Since 1949, annual exports to the United States have been below ID 1 million while imports have ranged between ID 3.1 and ID 11.3 million; both earnings and expenditures of dollars on non-merchandise transactions have been small.

Monetary system and public finance

Money and Banking

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457 The basis of Iraq's monetary system was determined by the Iraq Currency Law of 1931 entrusting management and note issue to a Currency Board, sitting in London, which functioned until 1 July 1949 when the National Bank of Iraq, established in 1947, assumed control. The Bank is authorized to maintain a reserve "composed of gold and foreign currencies at a ratio of not less than 70 per cent and Iraqi Government securities at a ratio not exceeding 30 per cent". However, the National Bank during its early years of operation continued the Board policy of 100 per cent foreign exchange cover and exercised a passive role towards the amount of the money supply, which is mainly affected by changes in the balance of payments.

1/ Iraq sterling balances fell from £57.2 million at the end of 1947 to £43 million at the end of 1949.

2/ National Bank of Iraq, Quarterly Bulletin (Baghdad).

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In fact, as a result of the recent increase in Iraq's income from oil, of which 70 per cent is credited in sterling, to the National Bank for the account of the Development Board, the foreign exchange reserve of the Bank rose from ID 35.1 million in 1949 to ID 83.3 million in 1954, with a corresponding increase in the total assets (excluding cash holdings) of the Bank from ID 41.1 million to ID 94.5 million, respectively. Thus, the foreign exchange reserve has risen from 98 per cent of the total volume of currency issued in 1949, to 177 per cent in 1954, and the National Bank of Iraq's assets from 111 per cent to 201 per cent, respectively. The foreign exchange reserve is principally in sterling, and consists mainly of sterling securities and British Treasury bills.

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It was not until the National Bank of Iraq started operating as the central bank of the State and after passage by Parliament of the Law for the Control of Banking in 1950, that banking institutions assumed a greater role in the financial structure. The banking control law provides that all banks and sarrafs 1/ must obtain a licence from the National Bank of Iraq. Private banks, whether established in Iraq or abroad, must dispose of a capital in Iraq of not less than ID 250,000. Banks are required to maintain in Iraq not less than 50 per cent cover, against their total current and fixed deposits, of which 15 per cent must be deposited with the National Bank. However, the National Bank can reduce this proportion to 30 per cent or increase it to 70 per cent.

The National Bank of Iraq

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This bank was established in 1947 as a central bank "to manage the currency and ensure its stability, to serve the State finance, to facilitate internal and external payments and generally to promote and facilitate credits for trade, industry and agriculture". Its capital was fixed at ID 5 million, of which ID 2.5 million was transferred by the Government from the surplus of its Currency Reserve Fund. The other half is "deemed to be reserve guaranteed by the Iraqi Treasury to be covered from the bank's annual profit at the rate of 25 per cent or not more than ID 250,000". In addition to the issue and management of the currency, banking control and exchange control, the bank has issued several small loans to various government and semi-government institutions and non-commercial banks, but its 1954 statements show no outstanding loans or advances.

Commercial Banks

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Institutions operating according to the Law for the Control of Banking are the sarrafs and foreign and Iraqi commercial banks. The Iraqi banks include the Rafidain Bank, which was established in 1941 and is actively engaged in commerce. In addition, applications have been filed for the establishment of two new private banks, the capital of which has been subscribed by Iraqi nationals. One of these banks, the Iraqi Commercial Bank, is reported to be already operating. Foreign banks include branches of British banks, such as the Ottoman Bank, the British

1/ A sarraf is defined as "a person or company licensed to deal in banking in Iraq".